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## Agenda Item 3e

December 13, 2011

### TO: MEMBERS OF THE PERFORMANCE AND COMPENSATION COMMITTEE

- I. **SUBJECT:** Salary Range and Incentive Schedule for Chief Financial Officer Classification
- II. **PROGRAM:** Administration
- III. **RECOMMENDATION:** Recommend the Board Adopt a Salary Range and Incentive Schedule for the Chief Financial Officer

#### IV. ANALYSIS:

##### Background

Under the provisions of Government Code (GC) 20098 and as provided for in the compensation policies administered by this Committee, the CalPERS Board of Administration (Board) shall fix the compensation of the Chief Executive Officer, Chief Investment Officer, Chief Actuary, General Counsel and other investment officers and portfolio managers whose positions are designated managerial.

In December 2010, the Board approved a new Chief Financial Officer (CFO) position and directed staff to establish a civil service classification and pursue an amendment to GC 20098 to include the CFO position.

A civil service classification proposal was submitted to the Department of Personnel Administration (DPA) in October 2011 and is pending approval. Legislation (AB 1042, Chapter 688, Statutes of 2011) was recently passed to amend GC 20098, effective January 1, 2012. The amendment grants authority to the CalPERS Board of Administration to establish the compensation for the CFO position.

The purpose of this agenda item is to provide the Committee with relevant salary information in order to adopt a base salary range and incentive schedule for the CFO position to be effective January 1, 2012.

##### Compensation Policies and Procedures

The Board's Compensation Policies and Procedures do not currently address the determination of base salary or incentive ranges specifically for the CFO position.

The Compensation Policies and Procedures for Senior Executives and Investment Management positions state, in part, that consideration of labor

market conditions affecting recruitment and retention will be evaluated, that public and private sector salary data (depending on the position) will be obtained, and that determination of base pay ranges will be based upon:

- Consideration of internal equity factors (Attachment 1),
- Relevant marketplace salary survey data gathered every two years,
- A review of relevant data when a position becomes vacant,
- Data gathered when the Performance and Compensation Committee determines a special survey is necessary, or
- Consideration of industry standards and best practices relative to executive compensation

Base salary ranges for covered positions are established by using a blend of private and global sector data as follows:

- Weighted 50% on median of large financial services (banking and insurance) private sector, **and** 50% on 75<sup>th</sup> percentile of large global (U.S. and non-U.S.) public sector (greater than \$75 billion in assets)
- If only one sector is available, 100% on that sector
- If no quality matches are available, adjustments are based on internal relationships
- Standard range width of 50% for all positions

### **Salary Survey Process – Base Salary Considerations**

After an assessment of the expertise of the firms included in the compensation consultant pool, staff engaged McLagan Partners to conduct a review of relevant salary data for CFO positions. McLagan was directed to apply the salary setting methodology adopted by the Board in 2008 and currently used for all covered positions as stated above, report on the findings, and recommend a competitive salary range. McLagan's competitive pay level analysis is presented in Attachment 2 and provides two sets of data and salary ranges for consideration as follows:

- One set of data and proposed salary range of \$210,000 - 310,000 based on existing policies and the blended public/private sector salary setting methodology and comparator groups.
- A second set of data and proposed salary range of \$215,000 - 325,000 utilizing the blended salary setting methodology, but including what McLagan Partners considers to be a more appropriate comparator group in today's market based on the position description, the organization, and other relevant factors.

Adam Barnett, managing partner with McLagan Partners, will be available to present the findings and answer any questions.

### **Base Salary and Incentive Schedule Recommendation**

Staff recommends the committee amend the compensation policy to reflect the new private sector comparator group as recommended by McLagan Partners for the CFO and adopt an annual base salary range of \$215,000 - 325,000 for the position.

In addition, staff recommends an incentive schedule of 0 - 40% for internal equity, to be consistent with other non-investment executive positions.

### **Next Steps - CFO Recruitment**

In addition to setting the compensation for the CFO position, the following action steps are yet to be completed:

<b>January</b>	Obtain CFO civil service classification approval from DPA and SPB; Engage search firm
<b>January - February</b>	CEO and selected search firm, develop a candidate profile and approve recruitment strategy and timetable
<b>February - April</b>	Search firm conducts global search; CEO provides periodic reports to the Board on progress Candidate slate screened and presented to CEO Civil service exam conducted by staff
<b>May - June</b>	Preliminary interviews and background checks completed by CEO and designated staff Final interviews with CEO and designated Board member(s)

## **V. RISKS:**

Risks associated with not accepting staff's recommendation for the compensation of the CFO classification include the following:

- There is a risk of delay to the recruitment efforts and the filling of this important position, if a base salary range and incentive schedule are not adopted at this time.

- Financial operations are at risk if the CFO position is not filled with a highly experienced individual in the near future.
- There is a risk of recruitment difficulties if the compensation is not commensurate with the responsibilities and experience necessary to attract qualified candidates.

#### **VI. STRATEGIC PLAN:**

Under Goal III of the Strategic Plan, CalPERS is committed to sustaining a high performance work culture. This can be accomplished at the highest executive levels through the establishment of methods that provide broad flexibility in the recruitment, retention and compensation of key personnel.

#### **VII. RESULTS/COSTS:**

The establishment of performance plan measures is critical to the management of a competitive compensation program for executives at the highest levels of the organization. This, in turn, is critical to the success of the organization. The cost of incentives that might arise from the recommendations in this item will be funded from existing resources.

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ANNE STAUSBOLL  
Chief Executive Officer

Attachments